

**TO: THE CHIEF EXECUTIVE OR MANAGING OFFICER OF ALL LOUISIANA
STATE-CHARTERED BANKS AND THRIFTS**

FROM: SID SEYMOUR, CHIEF EXAMINER

DATE: May 20, 2008

RE: LOUISIANA OFFICE OF FINANCIAL INSTITUTIONS (OFI) UPDATE

Overall Financial Condition - As of December 31, 2007, there were 162 banks and thrifts domiciled in the State of Louisiana, with 131 or approximately 81% being state-chartered. Our year-end 2007 Economic Update may be accessed on our website, www.ofi.louisiana.gov, by either clicking the bank or thrift links, and then OFI Financial Reports – December 31, 2007. As you will see, Louisiana-domiciled banks and thrifts performed well in the fourth quarter of 2007 on a nationwide comparison.

In the fourth quarter, net income declined as a result of higher loan loss provisions; however, the ROA for all banks and thrifts domiciled in the State of Louisiana remained strong and well above the national average. While there was a moderate decrease in Tier 1 (Core) Capital, the average Tier 1 Capital Ratio remains well above the national average. Nonperforming assets increased but remain below the national average. Non-current loans increased but also remain below the national average. During the fourth quarter, loan loss provisions and net charge-offs increased but remained well below national averages. The net loans to deposits ratio increased during the fourth quarter but remains below the national average.

Banks - For Louisiana state-chartered banks, the fourth quarter of 2007 was characterized by modest increases in total assets, total deposits, and Tier 1 (core) capital. Core deposits as a percent of total deposits and borrowed money increased slightly during the fourth quarter of 2007. Earnings decreased from the previous quarter because of increased loan loss provisions but remain strong. With quarterly average assets growing faster than Tier 1 (core) capital during the fourth quarter, the Core capital (leverage) ratio decreased; however, capital ratios remain well above regulatory minimums. During the fourth quarter, the dollar volume of nonperforming assets increased, causing the ratio of nonperforming assets to total assets to increase. While this ratio remained above the national average, the gap between the two closed in the fourth quarter. Further, the level of non-current loans to total loans decreased and fell below the national average. Net charge-offs also increased during the quarter.

Thrifts - For Louisiana state-chartered thrifts, the fourth quarter of 2007 was also characterized by modest increases in total assets and total deposits, with a minimal decline in Tier 1 (core) capital. Borrowed money, primarily FHLB advances, increased at a faster rate than total deposits, although the quarter also brought a modest increase in core and total deposits. Earnings for the fourth quarter increased substantially from the prior quarter; however, this occurred primarily because of negative loan loss provisions. The Tier 1 (core) capital ratio declined during the fourth quarter but remains well above regulatory minimums. During the fourth quarter, nonperforming assets increased substantially but remain at a manageable level. Net recoveries were reported in the fourth quarter as compared to net charge-offs reported in the previous quarter.

CAMELS Ratings for ALL banks and thrifts domiciled In Louisiana @ 12/31/07 - Based on the CAMELS rating scale used by state and federal regulators, the overall financial condition of all banks and thrifts domiciled in the State of Louisiana remains sound. The following chart reflects the composite ratings of all banks and thrifts domiciled in the State of Louisiana as of December 31, 2007.

| Composite CAMELS | All Banks / Thrifts | % | State-Chartered Banks / Thrifts | % | Federally-Chartered Banks / Thrifts | % |
|-----------------------------|--------------------------------|----------|--|----------|--|----------|
| Rating of "1" | 109 | 66% | 88 | 67% | 20 | 65% |
| Rating of "2" | 50 | 31% | 39 | 30% | 10 | 32% |
| Rating of "3" | 4 | 2% | 3 | 2% | 1 | 3% |
| Rating of "4" | 1 | 1% | 1 | 1% | 0 | 0% |
| Rating of "5" | 0 | 0% | 0 | 0% | 0 | 0% |
| Not yet rated | 0 | 0% | 0 | 0% | 0 | 0% |
| | ----- | | ----- | | ----- | |
| TOTAL | 162 | | 131 | | 31 | |

2008 Regular Legislative Session – HB 253, sponsored by Representative Mills, is an OFI-proposed bill. It is needed to replace an outdated reference to reports of criminal violations with reports of suspicious activity that must be filed with the Commissioner, upon request, by any state-chartered financial institution or licensed entity. It also empowers the Commissioner to refer any report of suspicious activity to the Attorney General or local District Attorneys for disposition. You can find a complete list of industry-related legislation on our website at www.ofi.louisiana.gov. Please contact General Counsel Sue Rouprich at 225/922-1028 or by email at srouprich@ofi.louisiana.gov with any questions regarding this legislation.

Preparations for the Upcoming Hurricane Season – In OFI Bulletin BL-02b-2006 (B,T), dated June 21, 2006, we requested and have compiled primary and secondary emergency contact information for your disaster recovery team that will only be used in the event that we have to deal with another wide-area disaster. The disaster recovery team is expected to maintain emergency contact information for the board and senior management. We have sent each financial institution a notice to update its disaster recovery team information in May. If you have any questions, please contact Executive Staff Officer Donna Montagnino at (225) 922-2627 or by email at dmontagnino@ofi.louisiana.gov.

OFI has again been assigned to several emergency support functions within the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP). In the event that we have to deal with another wide-area disaster, we will receive information through the GOHSEP. This information will then be shared with the industry through various means including the following: frequent conference calls; emails; postings to our website; and the Tel Span Conferencing Playback System. Recently, this Office again participated in a series of Hurricane Preparation Meetings, hosted by the Louisiana Bankers Association (LBA), at various locations throughout the State of Louisiana. Please contact me directly at 225/925-4675 or by email at sseymour@ofi.louisiana.gov with any questions in this regard.

IMPORTANT REMINDER: Concentrations in Commercial Real Estate (CRE) Lending –

Beginning with the March 31, 2008, Call Report, all institutions are required to provide more information on their CRE lending portfolios. It is very important that your management information system is properly programmed in order to identify owner-occupied versus non-owner-occupied CRE in completing the new schedule. Again, institutions should perform their own assessment of concentration risk in their CRE lending portfolios. Institutions that exceed certain CRE concentration thresholds, as detailed in the guidance, are expected to have more sophisticated risk management practices, procedures, and processes in place in order to properly monitor such risk on an ongoing basis. Examiners will continue to review for such concentrations at future examinations and through the off-site monitoring process. If you have not already done so, please be sure to become familiar with the guidance that can be located at <http://www.fdic.gov/news/news/financial/2006/fil06104.html>. Please contact me directly with any questions.

On 3-17-08, the FDIC issued a financial institution letter FIL re-emphasizing the importance of strong capital and loan loss allowance levels, and robust credit risk-management practices for institutions with significant concentrations of CRE loans. "Although commercial real estate lending can be a profitable business line for banks, it is a good time to re-emphasize the 2006 guidance because a number of banks have significant CRE concentrations, and the weakness in housing across the country may have an adverse effect on those institutions," said FDIC Chairman Shelia Bair. The letter recommended that institutions with significant CRE loan concentrations increase or maintain strong capital levels, ensure that their loan loss allowances are appropriate, manage their portfolios closely, maintain updated financial and analytical information, and bolster loan workout infrastructures. While institutions are encouraged to continue to make CRE loans available in their communities, they should be using prudent, time-tested lending standards that rely on strong underwriting and loan administration practices. The letter may be found here (<http://www.fdic.gov/news/news/financial/2008/fil08022.html>).

Fraud-Related Losses - We have been gathering information regarding fraud-related losses suffered by banks and thrifts in 2007 in order to make a case that more resources need to be dedicated to prosecuting such cases in the State of Louisiana. We included a question on our annual survey to state-chartered banks and thrifts, and the Louisiana Bankers Association (LBA) is surveying national banks and federal thrifts in this regard. If you have not done so, please provide that information to Administrative Program Specialist Beverly Patin at 225/922-0635 or by email at bpatin@ofi.louisiana.gov. Individual bank and thrift names will not be used. We will only use the number of banks and thrifts reporting and the total dollar amount reported.

Total losses reported were \$2,850,167*. The breakdown by total assets was as follows:

Assets less than \$100 Million = \$156,316 in losses with 46 banks/thrifts reporting
Assets \$100 Million to \$300 Million = \$885,208 losses with 56 banks/thrifts reporting
Assets \$300 Million to \$500 Million = \$333,150 in losses with 11 banks/thrifts reporting
Assets \$500 Million to \$1 Billion = \$644,061 in losses with 12 banks reporting
Assets \$1 Billion to \$10 Billion = \$831,432 in losses with 2 banks/thrifts reporting

*In addition, 11 of 31 (35%) national banks and federal thrifts reported fraud-related losses of \$7,648,399 in 2007. However, the breakdown was not available at this writing.

Retail Sweep Programs – We have recently encountered some questions concerning Retail Sweep Programs for which the FDIC has sought clarification from the Board of Governors of the Federal Reserve regarding the following questions: (1) what constitutes the books and records of an institution, when subsidiary ledgers that are used for sweep accounts do not interface and agree with an institution's general ledger accounts, (2) what must an institution do to create two separate legal accounts, (3) does an institution have to maintain two separate account numbers, and (4) does an institution have to send statements reflecting the activity in both accounts? We will share the response with you as soon as it's issued. In the meantime, we suggest that you **follow the guidance** contained in the Call Report Glossary Section, under Deposits, which provides detailed information concerning such arrangements. If you have any questions, please contact Staff CPA Mrs. Dale Jacobs at (225) 922-0632 or by email at djacobs@ofi.louisiana.gov.

Visa's IPO – Recently, we were asked if a state-chartered bank may accept and hold Visa stock in connection with Visa's conversion to public ownership. Visa U.S.A. will become a subsidiary of Visa, Inc., as part of its restructuring, and Visa member institutions will receive stock in Visa, Inc., calculated on the basis of fees it has generated. Member institutions will not compensate Visa, Inc., for the stock, and will receive the stock without taking any further action, and no cash or other rewards to members are available in lieu of the stock. In 2006, the OCC issued Interpretive Letter 1075 regarding the permissibility of a national bank accepting and holding stock acquired in conjunction with the MasterCard IPO. We understand that the OCC does not plan to issue a separate Interpretive Letter; however, its MasterCard analysis will apply to a national bank's ownership in Visa related to the Visa IPO. Since this would be a permissible investment under the Louisiana Banking Law and is a permissible activity for national banks, state-chartered banks **may accept and hold** such stock. However, it's important to note that the OCC's MasterCard IPO analysis was limited to the retention of previously held stock and did not extend to the speculative purchase of additional stock. The activity was also conditioned on a finding that no safety and soundness concerns are raised. We also understand that, if such conditions are met, **no application would be required** pursuant to Part 362 of the FDIC's Rules and Regulations. We plan to research this matter as it pertains to state-chartered savings and loan associations. In the meantime, please contact me directly with any questions.

States Unveil New Nationwide Mortgage Regulatory Framework -- On January 2, a new era for mortgage regulation in the United States became a reality when the states' Nationwide Mortgage Licensing System (NMLS) went into effect. The Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) announced that NMLS, an Internet-based system that will serve as the foundation of a coordinated state mortgage regulatory framework, officially became operational on the first business day of 2008. This was the culmination of a four-year effort by state regulators to provide a new and more solid foundation for mortgage supervision and consumer protection. NMLS provides the underpinnings of a regulatory framework to address the weaknesses of our current fragmented and complex system of mortgage origination and supervision. In the fall of 2004, through CSBS and AARMR, state banking and mortgage regulators came together to create a new regulatory framework for the nation's residential mortgage lending industry. The primary objectives of this framework are to enhance consumer protection. The launch of

NMLS is just one part of a multi-faceted plan being implemented by CSBS and AARMR to improve regulation and bring about greater uniformity across state lines in mortgage supervision. These efforts include coordinated supervision, improved regulatory practices and consistent standards for testing and training for mortgage originators. To accomplish this, many states, including Louisiana, have changed or are in the process of changing their laws and regulations.

The state-based approach of NMLS has the benefits of localized accountability and an on-the-ground regulatory system combined with the efficiencies of a nationwide framework. You can create high and consistent regulatory standards without preempting the states' important role in the development of consumer protections and the enforcement of lending standards. This nationwide system will dramatically change the way the mortgage industry is regulated and will drive standardization of state licensing and lending requirements. A major goal of NMLS is to enhance accountability among mortgage brokers and non-depository lenders by having one system, accessible by all state regulators, that tracks licensure, affiliations, employment history, and/or enforcement actions for affected parties. Plans call for consumers to have access to the system of public licensing and enforcement information in 2009, enabling them to make a more informed decision when selecting a mortgage loan officer and lender. NMLS is modeled upon the registry used to regulate securities brokers and dealers. NMLS has seven states as initial participants: Idaho, Iowa, Kentucky, Massachusetts, Nebraska, New York and Rhode Island. To date, 42 state agencies representing mortgage regulators in 40 states have indicated their intent to transition onto the system, citing the following reasons to:

- * Improve the efficiency and effectiveness of state supervision of the mortgage industry;
- * Enhance consumer protection;
- * Fight mortgage fraud and predatory lending that costs consumers and the mortgage industry hundreds of millions of dollars in losses each year;
- * Increase accountability among mortgage industry professionals; and
- * Unify and streamline state license processes for mortgage lenders and mortgage brokers.

Eventually, CSBS expects all 50 states will transition onto the System. CSBS and AARMR project enrollment of more than 500,000 company and professional licensees eventually to be registered through the NMLS repository. Through the System, mortgage companies will apply for and manage their licenses electronically. In addition, NMLS is designed to reduce industry and department costs for processing licenses and will streamline the licensing application and renewal process for companies and professionals and thereby reduce industry costs. It also will centralize redundant state agency operations through the use of more uniform mortgage licensing requirements. In addition, NMLS will provide greater efficiency to state regulators in the processing of license applications and enhance accountability on the part of brokers and non-depository lenders, with one system, accessible by all regulators, that tracks licenses, affiliations, employment histories, and/or enforcement actions for affected parties. The System is available over the Internet through a secure web site at <http://www.stateregulatoryregistry.org/NMLS>

Information on the Conference of State Bank Supervisors' (CSBS) Website – As mentioned in previous updates, you are again encouraged to periodically check out the CSBS website. Their weekly newsletter contains a great deal of useful information and will update you on the current matters affecting the state banking system. The direct link to the current newsletter is located at

<http://www.csbs.org/Content/NavigationMenu/PublicRelations/CSBSExaminer/ExaminerMain.htm>.

Their homepage, <http://www.csbs.org>, contains numerous helpful links. Please contact Deputy Chief Examiner Kerry Morris at 225/925-4201 or by email at kmorris@ofi.louisiana.gov with questions about CSBS' website or for help accessing the information.

New Initiatives – This Office is now a partner in the Louisiana Jump\$tart Coalition for Personal Financial Literacy. The Coalition will be proposing legislation in the upcoming 2008 Regular Legislative Session to create the Financial Literacy and Education Commission. This Office will participate on the Commission, which serves to improve the financial literacy and education of persons in Louisiana through the development of a state strategy to promote financial literacy and education.

Recent Examination Topics of Interest – At a recent examination, a bank was cited in apparent violation of the Louisiana Consumer Credit Law (LCCL) for charging improper credit report fees. Specifically, LSA-R.S. 9:3530 provides for documentation and origination fees as reimbursement for the lender's cost of booking the loan. The LCCL specifically excludes these fees from the finance charge, and does not provide for credit report fees. LSA-R.S. 9:3516(23)(a)(ii) defines a loan finance charge as a charge paid by the consumer for the lender to investigate the creditworthiness of the consumer, including credit report fees. LSA-R.S. 9:3519(A) states the maximum loan finance charge for consumer loans. Therefore, a lender may only charge a credit report fee if, when added to the finance charge, it does not exceed the rates in LSA-R.S. 9:3519(A).

In LSA-R.S. 9:3516(4), "amount financed" means the amount borrowed under a consumer loan, revolving loan or lender credit card account, plus any other charges, fees, and closing costs authorized by law, that are financed by the creditor under the transaction, or included in or added to the balance of the consumer's indebtedness subject to loan finance charges. LSA-R.S. 9:3530 authorizes an origination fee not to exceed fifty dollars and a documentation fee not to exceed twenty dollars, both of which may be included in the amount financed. Other fees that are not authorized are loan finance charges pursuant to LSA-R.S. 9:3516(23)(a). The interest rate charged on a simple interest consumer credit transaction should be correctly stated on the promissory note. An unauthorized fee that is incorrectly included in the amount financed rather than the finance charge results in an understated interest rate and an overstated amount financed, thereby overcharging the consumer. Additionally, finance charges exceeding the rates authorized in LSA-R.S. 9:3519 are prohibited. Incidentally, the Louisiana Consumer Credit Law authorizes closing costs such as credit report fees on consumer loans secured by mortgages on immovable property or real estate. Such closing costs as provided in LSA-R.S. 9:3516(8) may be included in the amount financed. Please contact me directly with any questions.

State Charter Is Still First Choice Of De Novos - Organizers of new banks continue to choose the state charter by a vast majority, CSBS found in an analysis of year-end 2007 numbers recorded by the FDIC. Of the 182 de novo applications approved last year, 145 (79.7 percent) were state-chartered. Twenty-five (13.7 percent) chose the national bank charter, and 12 (6.6 percent) opted for a federal thrift charter. Texas recorded the most new state banks with 19, followed by California and Florida with 18 each. Georgia was next, with 9, then Illinois with seven. There was a slight slowdown in de novo bank formations last year compared to 2006, when a total of 194 were chartered. CSBS

Chairman Jeff Vogel said that most bank organizers opt for the state charter because state banking departments are efficient, accessible and responsive. Vogel is Wyoming's State Banking Commissioner. "State supervision, because of its local focus and flexibility, traditionally has been the choice for community-based banks," Vogel said. "State supervisors are more effective at focusing on the needs of their banks, communities, and markets. Our knowledge of local and regional economic conditions enables us to work more closely with individual bankers and communities than the federal regulators. We are primarily concerned with our respective states, not the entire country," he added.

Reappointment – Earlier this year, Governor Bobby Jindal announced the reappointment of Commissioner John Ducrest for another four-year term. Commissioner Ducrest has served in this capacity since 2004, overseeing the regulation and supervision of state-chartered banks, thrifts, credit unions, finance companies, pawnbrokers, mortgage lenders and originators, repossession agents, insurance premium finance companies, credit repair companies, and bond for deed companies. He also serves as the Commissioner of Securities, regulating all investment advisers and broker-dealers operating within the State of Louisiana. I think you will agree that Commissioner Ducrest has done an outstanding job and well deserving of the reappointment.

Closing Comments – Again, we are always looking for ways to improve the manner in which we assist you. If you have noticed an area in which we are not excelling, regardless of whether it has always been that way, please let me know. You can call me directly at 225-925-4675, or email sseymour@ofi.louisiana.gov.